

10/31/07

## **PRELIMINARY REACTION TO BPA RESPONSE**

This paper is intended to provide BPA with a preliminary reaction to the proposals contained in the “BPA Response” dated October 19, 2007. Because of the short lead-time and press of events, these comments have not been reviewed or approved by the various governing bodies within public power. These comments represent the general view of the public power representatives who have worked on Regional Dialogue issues throughout the process.

This paper will deal primarily with BPA responses that need limited revision in order to accomplish the goals embodied in the public power “Strawman Proposal”, and will do so in the order they appear in the BPA Response. The BPA Response contains major movement by BPA, in particular in adopting the principles that publics should have product flexibilities similar to those in current contracts, and that intercustomer equity is judged based on the current contract/rate construct. This was a substantial change in approach, and will greatly facilitate the resolution of many rate, product and contract issues. This willingness to change by BPA is much appreciated.

The following recommendations are not “do-overs” of the BPA Response, but are modest revisions that will result in this new approach accomplishing the shared goals of BPA and public power in the Regional Dialogue setting

### **Grandfathered Determinants for Demand**

BPA Response – The Response agrees to establish grandfathered demand amounts, with the caveat that most or all of the customers should face the marginal demand rate to some extent. It also suggests that an adjustment to grandfathered demands may be needed to reflect loss of FBS capability over time.

Public Reaction – Just as the HWM methodology will likely result in some or all of the customers facing the marginal energy cost, the grandfathered demand amount methodology should operate in a similar fashion. Rate designs are currently being explored with BPA staff to accomplish this goal. Similarly, the need to make an adjustment to the demand amounts may be obviated by the rate designs currently under investigation (using load factor, not monthly demand quantities). However, there is agreement that energy and demand amounts must reflect changes in the FBS over time.

### **Provide Resource Flexibilities for Load Following Customers with Dispatchable Resources**

BPA Response – The Response indicates that BPA will continue to offer the current contract flexibilities to utilities with dispatchable resources, citing Clark and Cowlitz PUDs as examples.

Public Reaction – This is a very helpful approach for both customers with existing non-federal resources and those who may wish to develop such resources in the future.

### **More Flexibility in Resource Shapes for Load Following Customers**

BPA Response – Customers can establish resource shapes for unspecified resources in the shape of their monthly Total Retail Load as measured for Contract HWM purposes in 2010, in addition to declaring such resource in a flat block. Only customers declaring specific resources under section 5(b) may make such declaration in the shape of the expected output of the resource.

Public Reaction – This response presents two distinct sets of issues which need to be resolved. The first has to do with the ability of customers to bring on resources to reduce their peak load on BPA in response to the marginal capacity price signal. The second is the restriction on the ability to declare non-federal generation in the shape of the expected actual output.

As to the first issue, being able to declare unspecified resources in the shape of the customer's retail load is a step in the right direction. However, it sets limits on the customers that will thwart BPA's rate design effort to give customers marginal demand price signals so they will reduce their peak on BPA. It does so in three ways.

First, over the course of the 20 year contract, the customer's load shape on BPA will not likely continue to look like its 2010 load shape. As a consequence, this proposal will force customers to bring on resources to reduce their 2010 load and peak on BPA, rather than reducing their forecast load and peak on BPA at the time the resource is brought to load. Reducing a load and peak that no longer exists is no help to BPA.

Second, the requirement that the unspecified resource be brought on in the shape of the load means that customers will not be able to bring on peaking resources during HLH periods in order to actually reduce their peak (or improve their load factor) on BPA. This defeats the very purpose of sending the marginal demand price signal discussed by BPA in the Grandfathered Determinants for Demand Section of the Response. At a time when BPA is very concerned with it decreasing capacity, prohibiting customers from bringing on peaking resources to reduce their BPA peak makes little sense. It is worth a bit more complication to allow customers to actually reduce their peak on BPA.

The second issue is the requirement that a customer must dedicate a generating resource under section 5(b) to load service for the life of the resource if the customer wants to use the resource output to serve its load in the expected shape of the resource output. In other words, the price a customer must pay to use the actual output from a generating resource in the shape it is produced to serve its load is a life of the resource commitment. This is an unnecessary restriction that is being proposed for policy reasons by BPA. This restriction should be re-thought.

There is no legal requirement that a resource must be declared under section 5(b) in order to use its output as produced to serve the customer's load. The requirement to make a life of the resource commitment to use the output from a non-federal resource as it is produced to serve load will likely discourage many utilities from taking the risks associated with resource development. Or said another way, the ability to redeploy a generating asset at some point in its life is a strong selling point for taking on the risk, expense and public acrimony that come with building a generating resource.

#### Recommendation

1. Customers should be allowed to shape unspecified resources to their net requirement on BPA as forecast at the time the resource is declared. Once declared, the unspecified resource amounts would not be subject to change until the expiration of the declaration obligation.
2. Customers should be allowed to declare as unspecified resources peaking resources that will reduce the forecast peak load on BPA. Once declared, the unspecified resource peak amounts would not be subject to change until the expiration of the declaration obligation.
3. Customers should be allowed to declare as unspecified resources actual generating resources in the shape of the forecast output of the resource. Such a declaration may warrant a longer than normal obligation period, adequate notice to return the load to BPA and limits on the amount of non-federal resources in this category that can be removed from load service in a particular time-frame.

#### **Increased Flexibility in the Shape of the Block Product**

BPA Response – BPA will continue the same block shaping flexibility that is currently available, subject to the limit that no more than 60% of the monthly megawatt-hours may be in the HLH period.

Public Response – Continuing the ability to shape the Block product is a constructive move. BPA should consider increasing the percentage of megawatt-hours that can be shaped to the HLH period, as this limitation may make the shaped block less desirable to customers depending on their load shape. As a consequence, this 60% limitation could well result in more customers requesting the block with shaping capacity in order to cover their loads. And the block with shaping capacity is a more expensive and complex product to administer than a shaped block that allows 70% of the megawatt-hours to be in the HLH period.

#### **Block with Shaping Capacity**

BPA Response – The Response indicates that the shaping capacity in conjunction with Block will be offered in essentially the form that it is currently offered. However, it indicates that there may be additional limits added to this product if many customers choose this option, as well as the idea of a two day ahead scheduling obligation.

Public Reaction – The offer of a shaping capacity product in conjunction with Block similar to the current product is helpful. However, the caveats regarding changes that might be made to this product are cause for concern. Customers that select the Block with shaping capacity product will be using that product to meet their load requirements during the next contract period. Any new restrictions to the flexibility available under the current shaping capacity product that do not allow or make it very difficult in certain periods to meet the customer loads need to be subject to further detailed discussions.

Other products currently being offered by BPA have access to LLH flexibility. It seems reasonable to explore and discuss with customers that elect Block with shaping capacity the inclusion of some amount of LLH flexibility in this product. In this regard, all product discussions need to closely track with the rate design discussions to make sure that both the rates and the products are developed equitably for all classes and types of customers.

### **Block With Slice**

BPA Response – Slice customers can purchase a block shaped to their net requirement in conjunction with their Slice product purchase.

Public Reaction – This is a very positive proposal. However, the 30% minimum Block purchase amount should be reconsidered. It does not appear that this minimum requirement serves any useful function, and unnecessarily limits the choices available to the customer.

Recommendation – The minimum amount of Block that must be purchased in conjunction with the Slice product should be set at a lower level in order to provide maximum flexibility to customers in configuring their BPA products.

### **Create Contract Right for Product Switching**

BPA Response – Customers can switch products by giving notice in 2017 for a product change effective 2020, subject to holding other customers harmless from any identifiable cost impacts.

Public Response – There is agreement that any product switch must be done in a manner that does not adversely impact other customers. However, the identification of a date certain for all customers to make their switch is not a good resolution of this matter. First, using a single date for all product switching will create a huge workload for BPA, and will force customers to consider switching or forever lose the right. Second, the single date for all product switching will not address the needs of individual customers, who may find well before or well after that date that the product originally selected no longer suits their circumstances.

Recommendation – BPA should permit customers, with three year prior notice and resolution of any cost shift issues, to switch products at anytime during the contract term, with the exception that product switching in the first and last rate periods of the contract term should not be allowed.